

Message Text

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43

ACTION TRSE-00

INFO OCT-01 NEA-14 ISO-00 EB-11 L-03 CIAE-00 INR-11

NSAE-00 RSC-01 FRB-03 CIEP-03 DRC-01 OPIC-12 AID-20

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R 031225Z SEP 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 8462

INFO USDOC WASHDC

AMCONSUL DHAHRAN

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DEPARTMENT PASS TREASURY FOR ASS'T SECY PARSKY

E.O. 11652: N/A

TAGS: EIND, SA

SUBJECT: INDUSTRIAL PROJECTS

1. LOCAL BUSINESS CIRCLES REPORT THAT THE SAG DEPT OF INDUSTRIES HAS ISSUED LICENSES FOR A TRUCK ASSEMBLY PLANT IN DAMMAM TO A MERCEDES/JUFFALI BROS. JOINT VENTURE AND FOR A \$34 MILLION TIRE MANUFACTURING PLANT, ALSO IN DAMMAN, TO A YOKOHAMA/MITSUBISHI/AL-JOMAIH JOINT VENTURE IN WHICH AL-JOMAIH WOULD HOLD 60 PERCENT OF THE EQUITY.

2. IN THE MEANTIME, THE GM PROPOSAL CONTINUES TO HANG FIRE. IT IS INCREASINGLY EVIDENT THAT BASIC STUMBLING BLOCK IS A FUNDAMENTAL DIFFERENCE BETWEEN GM AND SAG AS TO WHAT CONSTITUTES A REASONABLE RATE OF RETURN ON INVESTMENT. DURING CALL AT EMBASSY ON AUG 28, GM'S JOHN MINOR EXPRESSED INDIGNATION AT THE SAUDI CONTENTION THAT THE SPECIAL CONCESSIONS ASKED FOR BY GM WERE AIMED AT A RATE OF RETURN OF 20 TO 30 PERCENT. HE ASSERTED THAT THE RATE OF RETURN, BEFORE REDUCTION OF IMPORT TARIFFS TO 3 PERCENT, WAS MORE LIKE 15 PERCENT, BUT SUBSEQUENTLY CONCEDED THAT THIS WAS LIMITED OFFICIAL USE

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ON TOTAL CAPITAL INVESTED AND THAT THE RETURN ON EQUITY

CAPITAL WAS INDEED CALCULATED AT 27 PERCENT.

3. ADDITIONAL DIFFICULTY STILL UNSETTLED FOR ALL INDUSTRIES AIMED AT SAUDI MARKET (MOSTLY THE NON-HYDROCARBON SECTOR) IS SUDDEN DROP OF CUSTOMS TO THREE PERCENT. ALTHOUGH MINCOMMERCE CLAIMS THAT INDUSTRIES WILL BE GIVEN PROTECTION, GM AND EMBASSY DOUBT FEASIBILITY OF LIFTING CUSTOMS ON ALL MODELS OF AUTOS BACK TO 15 PERCENT. CONSUMER RESISTANCE WOULD BE TOO GREAT. SOLUTION MAY LIE IN REVERSE CUSTOMS OR DIRECT SUBSIDY FOR SET PERIOD OF YEARS. BOTH FEASIBLE IDEAS BUT NOT IN LINE WITH CURRENT SAUDI THINKING.

4. JOINT US/SAUDI INDUSTRIALIZATION WORKING GROUP MAY WISH TO DISCUSS THIS NEW ROADBLOCK TO SAUDI INDUSTRIAL DEVELOPMENT AT MEETINGS IN LATE SEPTEMBER IN WASHINGTON. AKINS

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 03 SEP 1974
Decaption Date: 01 JAN 1960
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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Disposition Reason:
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EO Systematic Review
30 JUN 2005

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